HM Treasury

Financial Reporting Advisory Board Paper

IFRS amendments and annual improvement cycle – update

Issue:	Annual IFRS amendments or interpretations have been reviewed by HM Treasury to ensure that any relevant public-sector adaptations or interpretations are adequately reflected in the financial reporting guidance.
Impact on guidance:	The 2020-21 FReM can be updated if adaptations or interpretations are required.
IAS/IFRS adaptation?	No adaptations or interpretations proposed.
Impact on WGA?	None.
IPSAS compliant?	This would depend on whether IPSASB make adjustments for the new IFRS amendments and interpretations discussed in this paper. It is likely, however, that IPSAS would align to our proposals.
Interpretation for the public-sector context?	No adaptations or interpretations proposed.
Impact on budgetary regime and Estimates?	Accounting changes may have a knock-on effect on budgets, but these would be minimal and the implementation of the new amendments or interpretations will not cause any new misalignments.
Alignment with National Accounts	The changes will not impact on National Accounts, either as they already follow IFRS or there are separate budgeting treatments already in place to adjust data for National Accounts.
Recommendation:	For the Board to note, in particular that HM Treasury proposes to make no adaptations or interpretations in relation to the new amendments or interpretations but has proposed one minor change to the FReM text.
Timing:	The one minor amendment proposed to the FReM will be brought to the November 2020 FRAB meeting as part of the 2020-21 FReM approval process.

DETAIL

Amendments or interpretations effective from 1 January 2020

1. Appendix 1 lists 4 amendments or interpretations now effective from 1 January 2020, three of which have also been EU endorsed. Three of these four were reviewed by FRAB in April 2019 (FRAB 135 (11)) and no public sector amendments or interpretations were proposed then.

2. The appendix summarises the amendments and interpretations and provides further detail on the likely impact they will have across central government. As noted in the April 2019 FRAB, their likely impact will be limited, and the Treasury do not believe any public-sector adaptations or interpretations are required to adjust for their implementation. However, one minor amendment to the 2020-21 FReM has been suggested.

Amendments or interpretations from the 2018-20 annual improvement cycle

3. Appendix 2 lists 7 sets of amendments which the IASB is reviewing as part of their annual improvement cycle. The final amendments for these still pending and the IASB has suggested the final amendments will be published in the second quarter of 2020. As at the date of writing this paper, they had not yet been issued.

4. The appendix summarises the amendments and HM Treasury will review what impact these amendments, interpretations or disclosure initiatives will have once the final amendments have been issued. Further guidance or clarification relating to these amendments could be included in future FReMs as relevant. This will be considered as the FReM is updated in later periods.

Projects where standards, amendments or interpretations are in development

5. Appendix 3 lists 13 projects where amendments, interpretations or disclosure initiatives are in development. These include new narrow scope amendments and a new annual improvement cycle. HM Treasury will review what impact these amendments, interpretations or disclosure initiatives will have as they are issued.

HM Treasury

18th June 2020

Appendix 1: Amendments or interpretations issued and effective from 1 January 2020

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
Conceptual Framework (including amendments to references to the conceptual framework in IFRS standards)	1 January 2020 (Endorsed by the EU 09/12/2019)	2020-21	The revised Conceptual Framework, issued by the Board in March 2018, includes: • a new chapter on measurement; • guidance on reporting financial performance; • improved definitions of an asset and a liability, and guidance supporting these definitions; and • clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.	Minimal – The framework will only be relevant to preparers in exceptional circumstances where existing reporting standards cannot be applied and a bespoke accounting treatment must instead be developed from the principles in the Framework. FReM references to the Conceptual Framework were reviewed and revised as part of the FReM Review in 2019, ensuring that they reflect the latest version of the Framework. No public sector adaptations or interpretations are proposed.
IAS 1 and IAS 8 – Disclosure initiative: Definition of material (Amendments)	1 January 2020 (Endorsed by the EU 11/12/2019)	2020-21	The amendments clarify the definition of material and its application by: • aligning the wording of the definition of material across all IFRS Standards and other publications and making minor improvements to that wording;	Common – While updates to the concept of materiality will affect all account preparers, the amendments are unlikely to result in significant changes to materiality limits or disclosures. Nevertheless, preparers should be aware of the changes.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
			• including some of the supporting requirements in IAS 1 Presentation of Financial Statements in the definition to give them more prominence; and • clarifying the explanation accompanying the definition of material.	Minor amendment to the 2020-21 FReM proposed to add "or obscuring" to 7.6.2: "Notes should only be included where additional information is material, i.e. where its omission or misstatement or obscuring could influence the decisions of users taken on the basis of the financial statements." This amendment will be included in the 20-21 FReM as part of the usual update cycle. No public sector adaptations or interpretations are proposed.
IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform: Phase 1 (Amendments)	1 January 2020 (Endorsed by the EU 06/11/2019)	2020-21	The amendments deal with issues affecting financial reporting due to the long-term viability of current interest rate benchmarks. The amendments are: • modify some hedge accounting requirements so the cash flows of hedged instruments are not altered as a result of the interest rate benchmark reform • entities will be required to make specific disclosures about the extent their hedging relationships are affected by the amendments	Minimal – whilst there are some central government entities that use hedge accounting for their reserves and investments, this is not common across all central government entities. As the FReM does not give any specifics on hedge accounting, no amendments to the FReM are deemed necessary. No public sector adaptations or interpretations are proposed.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact

IFRS 3 – Business Combinations: Definition of a Business
 	
(Amendments)
	1 January 2020 (Not yet endorsed by the EU pending scrutiny taking place in March)	2020-21	The amendments clarify the definition of a business and:
			• confirm that a business must include inputs and a process, and clarify that:
			  ○ the process must be substantive; and
			  ○ the inputs and process must together significantly contribute to creating outputs.
			• narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
			• add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.
				Minimal – While there may be substantial investments held in businesses outside the public-sector boundary, it is unlikely the amendments will significantly affect public sector account preparers. Preparers should be aware of how IFRS 3 is interpreted for the public sector and refer to chapter 4 of the FReM for further detail.
				
				HM Treasury will review the implications of these changes and follow due process once the amendment has endorsed by the EU. Any substantive changes to the FReM will be approved by the FRAB and communicated appropriately.

Appendix 2: Amendments or interpretations from the 2018-20 Annual improvement cycle

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
IFRS 1 – First time adoption of IFRS: Subsidiary as a first-time adopter (Annual improvement cycle)	01 January 2022 (pending EU / UK endorsement)	To be advised	Proposal to require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS Standards (subject to any adjustments made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary). An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update were published on 14th May 2020 as part of the Annual Improvements to IFRS Standards 2018–2020.
IFRS 9 – Financial Instruments: Fees in the '10 per cent' test for derecognition (Annual improvement cycle)	01 January 2022 (pending EU / UK endorsement)	To be advised	Proposal for clarification of the requirements in the first sentence of paragraph B3.3.6 of IFRS 9. The amendment will say that when carrying out the '10 per cent' test for assessing whether to derecognise a financial liability, an entity includes only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on the other's behalf. An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update be were published on 14th May 2020.
IFRS 16 – Leases: Lease incentives, update to illustrative example 13	01 January 2022 (pending EU / UK endorsement)	To be advised	The proposed amendment to Illustrative Example 13 accompanying IFRS 16 would remove from the example the reimbursement of leasehold improvements by the lessor. The proposed amendment would resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Annual improvement cycle)			An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update were published on 14th May.
IAS 41 – Agriculture: Taxation in Fair value measurement (Annual improvement cycle)	01 January 2022 (pending EU / UK endorsement	To be advised	Proposal to follow the IFRS Interpretation Committee recommendation to propose an amendment to IAS 41 *Agriculture*. The amendment would remove the requirement for entities to exclude cash flows for taxation when measuring the fair value of biological assets using a present value technique. An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update were published on 14th May 2020.
IFRS 3 – Business Combinations: Updating a reference to the conceptual framework (Narrow scope amendments)	01 January 2022 (pending EU / UK endorsement)	None required.	The proposed amendment will update further references to the conceptual framework in IFRS 3, not already covered by the existing amendments to IFRS for the new conceptual framework. In January 2020 the IASB voted to confirm the proposals set out in the Exposure Draft, which included some information of assets and liabilities that would be out of scope of this amendment. Amendment published on 14th May 2020.
IAS 16 – Property, plant and Equipment: Proceeds before intended use	01 January 2022 (pending EU / UK endorsement)	To be advised	Proposal for a narrow-scope amendment to IAS 16 Property, Plant and Equipment is proposed to prohibit the deduction of proceeds from selling items produced from the cost of PPE, before the item of PPE can operate as intended by management. Instead, the company would recognise those sales proceeds and related costs in profit or loss. IASB proposed to apply the amendments retrospectively to items of PPE made available for use on or after the beginning of the earliest period presented when companies first apply the amendments. It

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Narrow scope amendments)			also clarifies the meaning of testing, to be clear that this is when an entity is testing the technical or physical performance of the asset, and not its financial performance. Amendment issued on 14th May 2020.
IAS 37: Provisions – Targeted improvements (Narrow scope amendments)	01 January 2022 (pending EU / UK endorsement)	To be advised	This amendment, issued May 2020, clarifies what an entity should include in the cost of fulfilling an onerous contract. The IASB determined that all costs directly relating to the fulfilment of the contract should be recognized (including, eg, an allocation of the depreciation charge for an item of PPE used in fulfilling the contract). IAS 37 did not previously give any guidance on this point. Government bodies may need to review how they calculate the cost of fulfilling onerous contracts. Amendment issued on 14th May 2020.

Appendix 3: Projects where standards, amendments or interpretations are in development

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
IFRS 16 – Accounting for Covid-19 related rent concessions (Narrow scope amendment)	01 June 2020 (Earlier application permitted) (pending EU / UK endorsement)	2021-22 (option of earlier application for DfT and DCMS)	Covid-19 has led to some lessors deferring or cancelling lease payments to provide relief to their lessees. This change could meet the definition of a lease modification which would have accounting consequences. The proposed practical expedient would allow a lessee to elect to not assess whether a Covid-19 related rent concession is a lease modification. If an entity opted to follow this methodology, they would account for the rent concession as per IFRS 16 as if it was not a lease modification. The IASB has set out the conditions that the rent concession would have to meet to take this proposed amendment. Amendment issued May 2020.
IFRS 17 – Insurance contracts: Amendments (Narrow scope amendments)	01 January 2023 (pending EU / UK endorsement)	To be advised and implementation work plan underway to assess	The IASB proposed some amendments to IFRS 17 in response to stakeholder concerns, including a proposed deferral for the implementation date of IFRS 17. The IASB confirmed a 2 year delay in the implementation date of IFRS 17 and as such, the amendments to the text to IFRS 17 will be brought into HM Treasury's implementation process for IFRS 17. The IASB discussed IFRS 17 at their May 2020 meeting. The proposal is for these amendments to be finalised in June 2020.
IAS 1 – Presentation of financial statements: Classification of liabilities as current or non-current	Effective date not yet agreed	To be advised	The amendment makes no fundamental changes but clarifies some aspects of the standard. The amendment affects the presentation of liabilities in the statement of financial position only and not the timing of recognition or the disclosure requirements. It clarifies: • that the classification of a liability as current or non-current is based on the rights that are in existence at the end of the reporting period and the "right" to defer settlement by at least 12 months must be in place at the end of the reporting period if it is to affect the liability classification

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Amendments)			• the classification is unaffected by the expectation of the entity exercising this right • the settlement refers to the transfer to the counterparty of cash, equity instrument, and other assets or services. The amendment was agreed in January 2020 with an effective date of 01 January 2022. However, due to Covid-19, in April 2020 the IASB proposed to delay the effective date to 01 January 2023.
IAS 1 and IFRS Practice Statement 2 – Disclosure initiative: Definition of material (Narrow scope amendments)	Effective date not yet agreed	To be advised	Proposed amendments to paragraphs 117-122 of IAS 1 and a new guidance for application in IFRS practice statement 2 are indented to help entities provide more useful accounting policy disclosure to the primary users of financial statements. The proposals include changing the request for “significant” disclosures to “material” disclosures and providing information aimed to assist entities apply the concept of materiality. These proposed amendments build on the amendments brought in due to the definition of materiality project (see appendix 1) and aim to help entities: • identify and disclose all accounting policies that provide material information to primary users of financial statements; and • identify immaterial accounting policies and eliminate them from their financial statements. An Exposure Draft was issued in August 2019 with comments requested by November 2019. The IASB have not made any further decision since the exposure draft but discussed feedback received on the Exposure Draft in their May 2020 meeting.
IAS 8 – Accounting policies and Accounting Estimates	Effective date not yet agreed	To be advised	Proposal to amend the definitions of accounting policies and changes in accounting estimates to: • Clarify the definitions of accounting policies and of changes in accounting estimates with the objective of making them more concise and distinctive; • Clarify how accounting policies and estimates relate to each other;

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Amendments)			• Add guidance about whether changes in valuation techniques and in estimation techniques are changes in accounting estimates; and • Update examples of estimates provided in IAS 8. Due to Covid-19, the IASB has postponed the publication of the amendment until December 2020.
IAS 8 – Accounting policy changes (Narrow scope amendments)	Effective date not yet agreed	To be advised	Proposal to amend IAS 8 to lower the impracticability threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. ED has published on 27 March 2018 and comments received by 27 July 2018. In 2018 the Board agreed to postpone decisions for a later meeting and the IASB is expecting to make a decision on the project direction in May 2020.
IAS 12 – Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Narrow scope amendments)	Effective date not yet agreed	To be advised	Proposal to make amendments to clarify how companies account for deferred tax on leases and decommissioning obligations in order to promote a consistent application of the standard. Proposed amendments to narrow the scope of initial recognition exemption in paragraphs 15 and 24 of IAS 12 so that it would not apply to transactions that give rise to both taxable and deductible temporary differences on initial recognition, to the extent that the initial recognition would be for equal amounts of deferred tax assets and liabilities. Feedback from the IASBs Exposure Draft was discussed by the IASB at its April 2020 meeting.
IAS 37: Provisions – Targeted improvements	Effective date not yet agreed	To be advised	The proposals are for a project to amend aspects of IAS 37 to:

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Narrow scope amendments)			• align the liability definition and requirements for identifying liabilities in IAS 37 with the Conceptual Framework for Financial Reporting; and • specify whether the rate at which an entity discounts a provision should reflect the entity's own credit risk. This section originally also included a bullet on 'clarify which costs to include when valuing a provision' but this element has been addressed by the IASB in a narrow scope amendment published May 2020.
IFRIC 14 – Availability of a Refund (Narrow scope amendments)	Effective date not yet agreed	To be advised	Proposal to amend IFRIC 14 to clarify the accounting when other parties have rights to make particular decisions about a company's defined benefit plan. The latest update is that the IASB is deciding the project direction, although the date of when this decision will be made is still pending.
Disclosure initiative – Subsidiaries that are SMEs	Effective date not yet agreed	To be advised	Proposal for new guidance to be developed in the format of a reduced disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries that are SMEs, i.e. subsidiaries that do not have public accountability.
Disclosure Initiative – Targeted Standards-level Review of Disclosures	Effective date not yet agreed	To be advised	The IASB has developed new guidance for the IASB Board to use when developing and drafting disclosure objectives and requirements and has tested this guidance by applying it to the disclosure requirements in IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement. The technical decisions on these elements were completed in Q1 2020 but due to Covid-1d, the exposure draft of the amendments to IAS 19 and IFRS 13 will be postponed until March 2021.
IBOR reform and the effect on financial reporting – phase 2	Effective date not yet agreed	To be advised	This project is monitoring further developments in the long-term viability of IBORs and to determine whether there are any implications for existing accounting requirements of decisions made in this area.

Standard (amendment/ new)	Effective date – beginning on or after (EU/UK Adopted?)	FReM Application?	Summary
(Narrow scope amendment)			An exposure draft was published on 9th April 2020 with responses requested by 25th May 2020.
2019 Comprehensive Review of the IFRS for SMEs Standard	Effective date not yet agreed	To be advised	The IASB is developing a Request for Information focused on obtaining views on whether and, if so, how to update the IFRS for SMEs Standard for IFRS Standards and amendments not currently incorporated into the IFRS for SMEs Standard, to better serve users of financial statements. The IASB has published a Request for Information and has extended the consultation as a result of Covid1-19 to 27th October 2020.